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TAGS: [PREL](#) [PINR](#) [PGOV](#) [PM](#) [CM](#) [TW](#) [POL](#) [CHIEF](#)

SUBJECT: PANAMA: TAIWAN-PRC RECOGNITION ISSUE SIMMERS AS  
NEW GOVERNMENT TAKES OFFICE

REF: A. BEIJING 13497

[B](#). TAIPEI 2208

[C](#). PANAMA 1953

[D](#). 03 PANAMA 2895

[E](#). 03 PANAMA 3211

Classified By: Ambassador Linda E. Watt for reasons 1.5 (B) AND (D).

#### SUMMARY AND INTRODUCTION

[1](#). (C) With a new, more PRC-friendly Panama government in office on September 1, the question of whether newly inaugurated President Martin Torrijos might drop Panama's long-standing diplomatic recognition of the Republic of China (Taiwan) in favor of the People's Republic of China (PRC) continues to simmer. Taiwan, Panama, and the PRC all agree that Panama is Taiwan's most important formal diplomatic relationship, and the PRC would like to pluck it out of Taiwan's grasp (Ref B). Panama has deftly leveraged its relations with both sides to extract maximum resources, in particular from Taiwan. As a modernizing Panamanian government (GOP) with a heavy economic agenda that includes expanding the Panama Canal takes power, Panama will increasingly see PRC-vs.-Taiwan through the prism of its global interests, which include Canal traffic, shipping, container ports, trade, and investment, all areas where the PRC is becoming increasingly prominent.

[2](#). (C) The Democratic Revolutionary Party (PRD) of President Torrijos (who took office on September 1) is closer historically to the PRC than the Arnulfista Party of outgoing President Mireya Moscoso. Torrijos and his team have sent mixed messages on PRC-vs.-Taiwan, sometimes seeming to lean toward the PRC (saying that he would "reevaluate" PRC-Taiwan relations), then backtracking and leaning the other way (saying that he has no intention of changing relations). Despite showing clear interest in the issue, Torrijos has not signaled that he actually is considering derecognizing Taiwan. Also, the incoming foreign minister has assured that he will consult the Embassy if and when serious internal discussions on PRC-vs.-Taiwan take place. The Embassy's bottom line has not changed: We do not expect Panama to derecognize Taiwan in the near future. (See Reftel C.) In the medium term (during the 2004-2009 Torrijos administration), we only would expect Panama to derecognize Taiwan if Panama's cost/benefit analysis of PRC-vs.-Taiwan relations also changes. For now, the calculus still favors Taiwan. This message will analyze the issue and report recent Embassy meetings with the main players. End Introduction.

#### June 2004 Visit of PRC Vice FM Zhou Accomplishes Little

[3](#). (C) PRC Vice Foreign Minister Zhou Wenzhong's June 18, 2004 pre-Presidential-inauguration visit to Panama was disappointing from the PRC perspective, apparently accomplishing little besides raising speculation. In a recent meeting, China-Panama Commercial Development Representative Yang Fajin told PolCouns that Zhou got noncommittal responses from the Torrijos inner circle on his pitch to derecognize Taiwan and was denied access to top GOP policy makers.

[4](#). (C) Torrijos and Foreign Minister-designate Lewis both refused to meet with VFM Zhou, Yang said. Instead, Zhou met with (now Minister of the Presidency) Ubaldo Real (former foreign minister Jorge Ritter and former Torrijos campaign manager (and first cousin) Hugo Torrijos also may have been present). With the Panamanians in listening mode, Zhou told them that the PRC wants to establish formal diplomatic relations with Panama, if Panama will cut all official contacts with Taiwan, although Panama could still maintain "civil" relations with Taiwan. Zhou also suggested that formal Panama-PRC relations would bring increased economic cooperation.

[5](#). (C) In response to a question from PolCouns, Yang denied reports that the PRC was willing to assist Panama with Canal expansion but emphasized recent newspaper reporting that Taiwan would provide Panama US\$ 7 billion in private and government financing for Canal expansion. Yang added that Vice FM Minister Zhou met with 22 members of the local Chinese expatriate community to discuss the peaceful reunification of China. (Comment: Reports about the PRC's willingness and deep pockets to finance Canal expansion appeared in the Panama press last March, during the

presidential election campaign. End Comment.)

#### PRC Vice FM Zhou Meets Minister Jacome

16. (C) If anything, Zhou's interaction with the Moscoso government was even less satisfying. Yang's negotiations with then-Foreign Minister Harmodio Arias only yielded a meeting for Zhou with then-Minister of Commerce and Industries Joaquin Jacome -- but as Zhou only wanted to talk politics, Jacome replied that was not his area of competence and expertise but promised to forward Zhou's comments to President Moscoso.

17. (C) According to Yang, the 20-minute Zhou-Jacome meeting was a one-way tirade of complaints about the Moscoso government's "poor treatment" of the PRC. Zhou criticized the Moscoso administration for failing to invite Yang to official events in Panama and for shunning PRC-hosted functions, such as China national day celebrations. Reminding Jacome that PRC officials regularly attend events hosted by Panama's "unofficial" representatives in Beijing, Zhou blamed Panamanian former Vice Minister of Foreign Affairs Nivia Rossana Castrellon for enacting and enforcing the Moscoso government's "anti-PRC" policy. Zhou also complained that Panama was denying visa applications of PRC citizens unless the applicants already had U.S. visas in their passports, which he blamed on Taiwan pressure on President Moscoso.

#### Will Relations Hinge on Chen Shui-bian's Visit?

18. (C) Yang believes that President-elect Martin Torrijos has not yet decided anything about PRC-vs.-Taiwan and is waiting to see what kind of inducement package Taiwan President Chen Shui-bian may offer during his August 31-September 1 visit to Panama's September 1, 2004 inauguration. Yang noted that an August 13 La Prensa story reported that President-elect Torrijos had announced the formation of a Panama-Taiwan working group to study Taiwan's interest in investing in Canal expansion and "alternative financing" options.

19. (C) Yang added that the Taiwan Ambassador and his staff in Panama are politically linked to Taiwan's former Guomintang government and may not enjoy close relations with the present government in Taipei. The PRC has no plans for ministerial visits in the near future, Yang continued, but PRC commercial delegations will continue to come to Panama. Yang added that the PRC government is encouraging Chinese to invest overseas, adding that Panama is a location of much interest. According to Yang, President Torrijos has visited the PRC twice, but not since the mid-1980s.

#### A "Non-Substantive" Meeting

10. (C) Samuel Lewis Navarro, now Foreign Minister, corroborated much of Yang's account, in a recent meeting with PolCouns. Lewis described Deputy Foreign Minister Zhou's June 18 meeting with Ubaldino Real as "non-substantive" and sought to downplay its importance. "He's the same as the other Chinese who come through here. They always say the same thing: 'You're on the wrong side of the issue.' They want to intensify relations," he explained. Prior to Panama's May 2, 2004 national elections, Lewis continued, Martin Torrijos said there is no reason to change our relations with Taiwan, "and that was it."

#### No Plans, No Discussions...

11. (C) Lewis insisted that Panama has no plans, imminent or otherwise, to alter its current formal diplomatic relationship with Taiwan in favor of China, adding that the Torrijos team had not yet held any discussions on the matter. He assured PolCouns that the United States is Panama's most important foreign relationship and that his government would consult closely with the Embassy if discussions on China and Taiwan take place. (Comment: Lewis's denial of "internal discussions" somewhat contradicts his June 30 query to the Ambassador asking for U.S. views on such a change. See Reftel C. End Comment.)

#### But Lots of Pressure... and "Shrinkage"

12. (C) Asked whether Panama is one of Taiwan's most important diplomatic relationships, Lewis said he thought it is the most important one. Both sides had placed a lot of pressure on the Torrijos team, Lewis said. He added that some of Taiwan's methods made him uncomfortable, implying that Taiwan had made some "non-transparent" offers.

13. (C) In a separate meeting with Ambassador, Lewis claimed Taiwan had given US\$ 75 million in official and non-official

contributions to Panama during the Moscoso administration and noted that significant "shrinkage" had occurred. Lewis recounted that at a recent meeting he had attended with then-First Lady Ruby Moscoso (President Moscoso's sister) and Taiwan Ambassador David Hu, Amb. Hu had vocally insisted several times that the funds that Taiwan had donated to the Office of the First Lady must remain after Ruby Moscoso departs. Apparently Ruby Moscoso wanted to keep those funds for her private foundation, Lewis explained, while in-coming First Lady Vivian Torrijos equally wanted to ensure that the funds remained available for her use after September 1.

#### Taiwan Ambassador Clams Up

¶14. (C) In a separate meeting with PolCouns, Taiwan Ambassador David Hu apparently was unwilling to reveal anything of substance. He called the formation of a Panama-Taiwan Canal Working Group "a fiction" and cast doubt on Taiwan's intention to help finance Canal expansion. (See para 16.) Besides confirming that a Chen-Torrijos meeting would take place, Hu claimed to know nothing about President Chen's plans for discussions with the Torrijos government. Also, Hu denied that Panama was Taiwan's most important formal diplomatic relationship, saying all the Central American countries that recognize Taiwan are equal. (Note: Taiwan's embassy in Panama has 13 officers, Hu said, and 15-16 Taiwanese technical cooperation volunteers working in Panama. End note.) Hu betrayed some uneasiness about the incoming PRD government, trying to paint it as having "socialist" sympathies and organization. (Note: The PRC's Commercial Development Office in Panama was established under the 1994-1999 PRD administration of Ernesto Perez Balladares. End note.)

¶15. (C) Hu called relations with Panama "excellent" and cooperation "marvelous," though he acknowledged that his Embassy traditionally had had little contact with the PRD, Panama's new ruling party. He noted that many countries (including France, China, and Brazil) have interests in the Canal but suggested that the PRC would seek to increase its "influence" in the Panamanian government (GOP). Hu doubted the PRC government had the ability to support expanding the Canal or that was prepared to offer significant sums to aid Panama in financing Canal expansion. The new Torrijos government will be occupied with economic issues, Hu said. (Comment: In a later meeting with PolCouns, Chinese-Panamanian Cultural Center President Jose Chong-Hon suggested that Ambassador Hu is reluctant to share information with U.S. officials because the lack of diplomatic relations between the U.S. and Taiwan. For instance, Chong-Hon affirmed the existence of the bilateral working group. End Comment.)

#### COMMENT

¶16. (C) Successive Panamanian governments skillfully have used the carrot and stick of diplomatic recognition to extract maximum resources from both sides of the Taiwan straits. (See Refels D and E.) The GOP is aware that it will lose the ability to play one side off against the other if it derecognizes Taiwan. Despite the recent conclusion of a Panama-Taiwan Free Trade Agreement, some observers believe Panama may derecognize Taiwan due to burgeoning PRC-Panama commercial relations but others disagree. The skeptics point out that PRC trade with the eastern U.S. seaboard has no alternative to using the Panama Canal, whatever Panama's diplomatic orientation. Also, they dismiss suggestions that lack of formal relations with Panama would deter serious PRC investors and point out that a Hong Kong company (Hutchinson Whampoa) already owns 51% of two of Panama's large container ports. According to Yang, the primary obstacle to PRC investment in Panama is the PRC's ban on investment by Chinese state-owned enterprises in countries which have relations with Taiwan.

¶17. (C) Panama has a large, widely dispersed ethnic Chinese population, estimated to comprise up to 5% of Panama's 3 million people. The local Chinese community traditionally is oriented toward Taiwan (increasingly because of Taiwan's democracy), but the community is politically inactive and probably would play a minimal role in any GOP decision to switch sides.

¶18. (C) PRC officials will find many more sympathetic ears in the new Torrijos government than under President Moscoso and may well be able to increase their influence and access. For instance, PRC Representative Yang noted that he has many influential Panamanian friends, who include: Hugo Giraud (now PRD President), Juan Jose Amado (former ambassador to Japan and the U.S., former Minister of Foreign Affairs, and former Minister of Commerce and Industry), Marco Ameglio (Arnulfista legislator, former Assembly President, former Foreign Relations Commission President), and Arturo Vallarino (out-going First Vice President).

